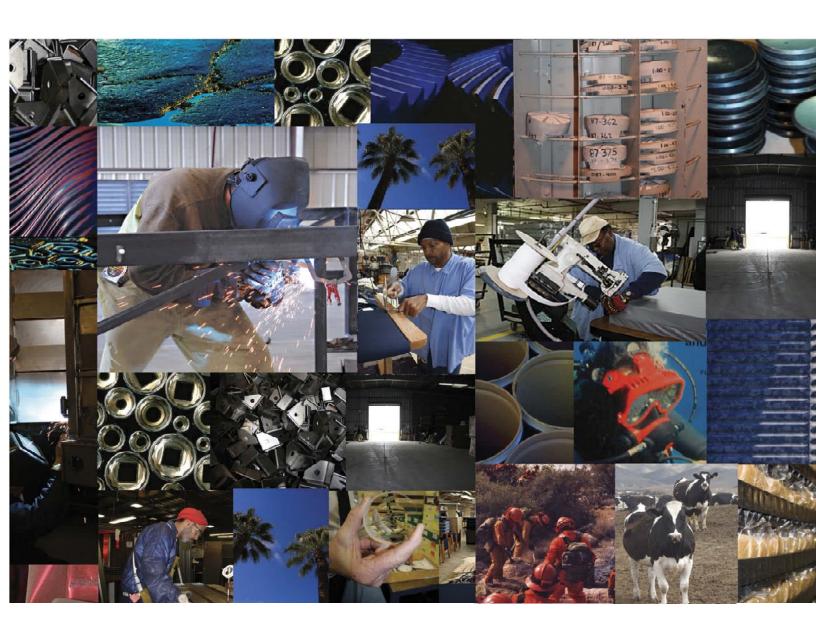
### Annual Plan Fiscal Year 2007-2008

New Opportunities







### **Core Values**

**Customer Focused** Be the provider of choice for services and products by meeting customers' expectations for quality, cost, and time **Self-Sufficiency** Ensure all our enterprises add to our profitability and inmate skills **Team Work** Work as a team to ensure success by implementing a participative management style, and dedication and commitment to our goals **Integrity** Conduct ourselves professionally, achieving the highest ethical standards, and extending our conduct to the humane management of inmates Responsibility Take responsibility for our actions and the consequences of all our programs and ensure that the effects of our program are well documented Collaboration Work with business, communities, labor, and other inmate and parolee programs to ensure that they maximize opportunities for public safety **Staff Well-Being** Foster an environment that supports professional development and personal health of all staff, including inmates Innovation Develop work and training programs that will provide more opportunities to help inmates prepare for re-entry into society

### **Quality Principles**

#### **Quality Philosophy**

The California Prison Industry Authority seeks to meet the needs of its internal and external customers. To achieve this goal, PIA management principles include providing timely-delivered, competitively-priced, highquality goods and services, preparing inmates for successful transition back into society, and developing our staff.

#### **Quality Policy**

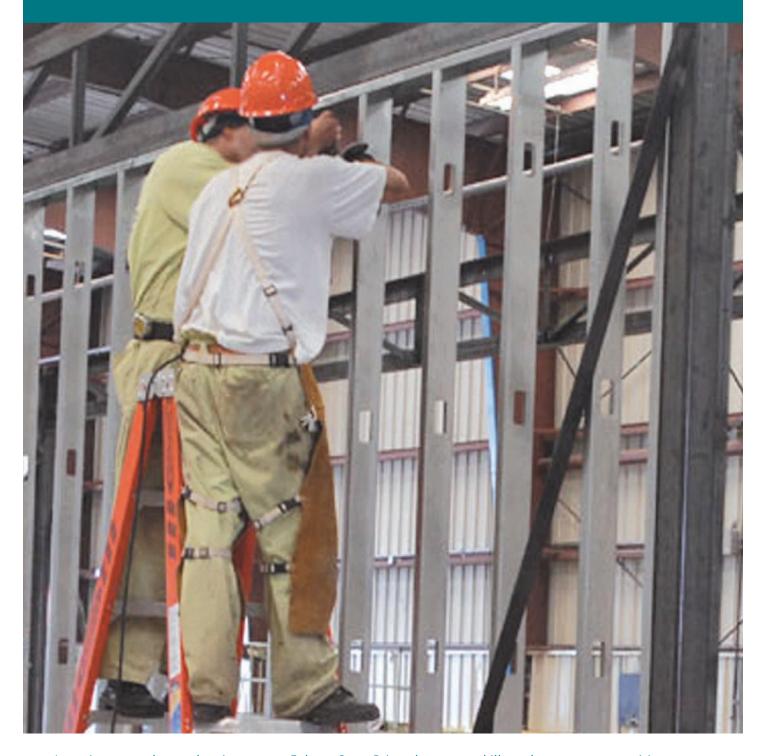
Customers are our main focus. Our goods and services have value only if they meet our customers' current and future expectations of quality.

Continuous improvement is essential to our growth. Our commitment to excellence reflects an ongoing quality management system.

#### **Quality Principles**

Customer Focus
Leadership
Involvement of People
Process Approach
Continual Improvement

Factual Approach to Decision Making Mutually Beneficial Supplier Relationship



Learning to work together, inmates at Folsom State Prison have new skills and career opportunities.

## Key Message

from the General Manager

#### **Dear Board Members**

I am pleased to provide you with the Prison Industry Authority's (PIA) Annual Financial Plan for Fiscal Year (FY) 2007-08. This Plan represents the third year of our five-year Strategic Business Plan.

Consistent with its Strategic Business Plan, PlA's main financial goal continues to be self-sufficiency. This is especially critical since PlA relies solely on its ability to be profitable and not on state appropriations. It must manufacture quality goods in a cost-effective manner, while selling to its government customers at a fair and competitive price.

#### **Strategic Directions**

The period of FY 2004-05 through 2006-07 was a pivotal point for PIA. It issued its first updated strategic business plan in seven years – identifying clear, achievable and measurable objectives to support strategic goals. Three years into the plan period, PIA is on track to exceed the \$200 million annual revenue goal that it aimed to achieve within five years. PIA is also on track to have higher than ever levels of inmates enrolled in its programs. Clearly, PIA has exceeded its customers' expectations - it has provided more variety and strived to deliver products faster by retooling factories, implementing more comprehensive design and engineering functions, and restructuring its distribution system. Further, it enhanced its operational efficiencies by implementing three critical strategies: (1) a new procurement system that saves both time and money in purchasing and contracts; (2) a quality system based on ISO 9001 Quality Management System that is standardizing quality and helping drive down costs; and (3) its Enterprise Resource Planning system is providing more effective production and accounting tools.

While self-sufficiency is a primary goal, PIA has three other major goals: Ensuring Inmate Success, Exceeding Customer Expectations, and Promoting and Supporting PIA; these goals are inter-related. PIA has to be self-sufficient to provide our inmate workforce the training they require. It also has to exceed customer expectations to meet the revenue goals that will allow self-sufficiency. And, PIA needs to continually promote and support tools and infrastructure necessary to manufacture quality products that its customers have come to expect.

#### Challenges

Despite its significant improvements, PIA continues to face daunting challenges. For example, over the prior two fiscal years, it wrote off obsolete inventories that had been on the books for many years, which resulted in losses despite record sales. PIA also continues to experience increased costs in raw materials, services, fuel, and unfunded salary adjustments. PIA does not receive annual state appropriations and must fund any increased costs out of its operating funds. While PIA's long-term structural issues affect its cost of goods sold, its long-term contractual commitments to customers prevent it from quickly increasing prices or adjusting its resource needs. Lastly, PIA must continue to review all enterprises to effectively evaluate and balance those that are cost-effective and provide real-world training opportunities for its inmate workforce.

Notwithstanding these challenges, PIA is making great strides to correct the structural issues that impede profitability.

#### **Sales Outlook**

The revenue goal for FY 2007-08 is \$203 million. This amount is slightly more than FY 2006-07 Annual Plan revenue of \$199 million and remains constant with our pattern of revenue growth. The \$199 million revenue figure represents a \$33 million, or 20 percent

### Key Message

from the General Manager

increase over its previous highest revenue of \$164 million in FY 2000-01.

PIA's revenue projections are indicative of its aggressive sales and growth in customers needs for products and services. The increase also represents PIA's ability to quickly respond to the unique needs of our customers. For instance, the construction of modular buildings not only addresses unique customer needs but is distinctive in the type of experience and training that it provides its inmate workforce.

PIA has prepared a comprehensive sales plan to amply support its fiscal goal of \$203 million. Namely, we plan on selling more in order to adjust for timing differences in the state's procurement processes. While projected sales for many enterprises will continue to be level, there are areas where there is ample room for growth. For instance, we anticipate growth potential of approximately \$3 million in food packaging, \$2 million in printing services, and \$3 million in optical services. Our Century Line general fabrication with a growth potential of approximately \$7 million presents one of our greatest opportunities. The modular building enterprise, which will be only in its second year of operation, has immeasurable growth potential as demonstrated by our customers' enthusiastic response to and requests for these buildings. PIA is working with state agencies to ensure a smooth process by which agencies can order such modulars.

In order to ensure the aggressive sales plan, it is essential to continuously monitor production capacity to build and deliver all products timely. However, there are other risks outside of its control that PIA must also monitor. Specifically, California is undergoing significant budget issues that may affect some of our sales, especially in areas such as furniture. For that reason, PIA continues to look at

alternate markets including those in other states. Also, there are ongoing challenges from private vendors lobbying the Legislature to limit PIA's statutory authority to sell certain products. For instance, some competitors recently questioned the Prison Industry Board's authority and scope to allow PIA to produce certain food products.

Finally, PIA must convert increased sales to increased profitability. Thus, equally important to PIA's projections is maintaining the proper ratio of cost of goods sold to earned revenue to ensure a stable gross profit. This is essential for PIA to operate as an efficient business and to fund operational and capital costs for the training and certification programs it operates for its inmate workforce.

#### **Capital Outlay Plan**

To be sustainable also requires PIA to invest in itself. Therefore, capital investments to enhance production capabilities increased. Capital investment helps better reach revenue goals and ensure a strong position for future growth. For those reasons, over the past three years, PIA has invested over \$26 million in capital outlay including equipment, improvements, and buildings. Moreover, PIA developed a capital outlay schedule managed by the Industrial Services Division to ensure that all non-information technology equipment is regularly maintained and replaced.

#### Recidivism

Being profitable is crucial to PIA's sustainability and its ability to provide inmates the training and experience they need for successful return to society. Having a well-trained parolee returning to society is critical to the state. Thus, the real achievement and output for FY 2007-08 is 6,900 well-trained inmates.

### Key Message

from the General Manager

For instance, this past year PIA expanded the Carpentry Pre-Apprenticeship Program and reopened the Marine Technology Training Program. These two programs are not only distinctive in correctional industries, but also provide essential services to the state, and open up opportunities for inmates in unique and demanding fields.

Our customers appreciate and are very satisfied with the value and quality of the products that we provide. They also understand the added value and quality of the real-world experience we provide inmates to help ensure their success. Thus, our customers consider such value when purchasing PIA products and services.

#### **Planning for the Future**

PIA's teams are performing at record levels in terms of capacity and quality. To continue our commitment in staff development, we are implementing a department-wide training and development plan that addresses core competency training for all PIA classifications. This strong basis will enable us to continue our strategies.

To further promote self-sufficiency, we are updating prices to ensure an appropriate return for PIA and a competitive price to our customers. We continue to monitor procurement practices and inventory levels to help lower costs of raw materials. We also continue to expand our statewide distribution system to provide more timely delivery and lower transportation costs. Finally, we are making global changes to PIA's infrastructure, including expanding ISO 9001 certification in the following areas: Century Line modular furniture; Furniture enterprise; Modular Construction enterprise; and On-Time Delivery system.

Becoming profitable also requires improving current products, providing new products, and expanding markets. For example, we are developing an additional Modular Building model, expanding the cleaning products line, and redesigning the furniture lines. Our Sales staff is also helping to meet the potential demands of local municipalities and higher education markets.

Our management, staff, and the inmate workforce are up to the challenge of ensuring PIA's long-term success. Consistent support and business of our customers is critical to the overall financial success of PIA. The ongoing quality and work of our staff is vital to meeting our customers' needs. Ultimately, the support and confidence of the Prison Industry Board is essential to keep PIA going.

As your new General Manager, I extend to you my sincerest thanks.

Sincerely,

Charles L. Pattillo General Manager

June 2007



Learning to work underwater, inmates at California Institution for Men have a new outlook on career opportunities.

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## Budget & Financial Plan

The Budget and Financial Plan Summary is PIA's estimate of revenues and expenses for the Fiscal Year 2007-08. The summary reflects an estimated Net Operating Income of \$0.5 million at June 30, 2008.

	FY 05-06 Actuals Audited	FY 06-07 Approved Plan	FY 07-08 Approved Plan
Manufacturing	\$93,973	\$111,459	\$111,426
Services	60,242	60,996	65,569
Agricultural	25,160	26,950	26,300
Total Revenue	\$179,375	\$199,405	\$203,295
Expenses (Expressed In Thou	sands)		
Cost of Goods Sold			
Manufacturing	\$81,600	\$91,526	\$90,440
Services	45,527	46,579	52,456
Agricultural	25,799	24,714	25,176
Total Cost of Goods Sold	\$152,926	\$162,819	\$ 168,072
Gross Profit	\$26,449	\$36,586	\$35,223
Selling & Administration			
Prison Industry Board	\$69	\$197	\$149
Operations	3,128	3,135	3,28
Inmate Development	1,089	1,068	962
Marketing	4,573	4,875	4,70
Industrial Services	1,385	1,644	2,110
Executive	1,332	1,451	784
Administration Services	7,960	10,214	10,22
Distribution /Transportation	11,599	12,267	12,48
Total Selling & Administration	\$31,135	\$34,851	\$34,700

Note: Cost of Goods Sold includes Sales Tax for:

FY 2005-06 - \$4.8 million FY 2006-07 - \$4.2 million FY 2007-08 - \$4.5 million

Page 1 **Annual Plan** 

## **Enterprise Overview**

	(Expressed In Thousands)			
Enterprise	Revenue	Cost of Goods Sold	Gross Profit/(Loss)	Inmate Assignments
Dairy/Farm	\$14,500	\$13,698	\$802	271
Crops	2,000	1,823	177	72
Poultry	5,700	5,330	370	111
Egg Production	4,100	4,294	(194)	96
Meat Cutting	10,600	9,731	869	70
Bakery	2,900	2,489	411	76
Coffee Roasting	1,225	1,251	(26)	25
Food & Beverage Packaging	10,733	11,078	(345)	175
Furniture	24,863	20,935	3,928	845
Metal Products	8,590	9,310	(720)	449
Metal Signs	702	811	(109)	30
License Plates	14,900	9,788	5,112	131
General Fabrication (Century Systems)	14,130	12,534	1,596	160
Bindery	3,942	2,475	1,467	140
Knitting Mill	1,827	1,263	564	82
Fabric Products	27,305	19,107	8,198	1,527
Shoe Factory	4,358	3,935	423	242
Mattress Factory	2,644	2,289	355	98
Printing	6,800	3,609	3,191	124
Dental Lab	424	366	58	39
Cleaning Products	2,467	2,233	234	50
Laundry	13,355	12,166	1,189	866
Optical	18,830	10,837	7,993	412
Modular Construction	6,400	6,453	(53)	80
Enterprise-wide Unallocated Expenses	0	267	(267)	0
Total	\$203,295	\$168,072	\$35,223	6,171

Notes: In addition to generating revenue, some enterprises provide products used by other PIA enterprises.

The number of inmate assignments excludes 510 Field Support and 177 Central Office inmate assignments.

Total statewide inmate assignments is 6,858.

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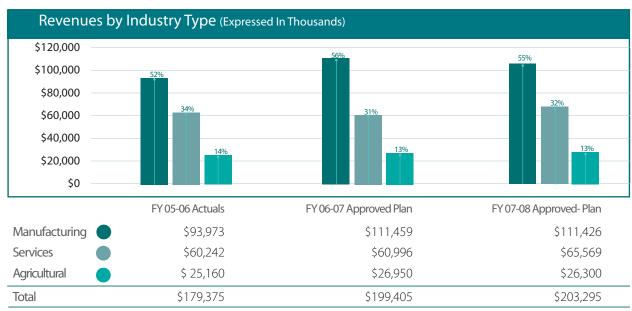
### Revenue

Over the past three years, PIA has significantly increased its revenue. For instance, PIA projects that for FY 2006-07, it will generate approximately \$197 million or \$33 million greater than its previous highest revenue of \$164 million in FY 2000-01. The projected \$197 million is less than the amount in the approved plan for FY 2006-07, primarily the result of market changes in our Modular, Coffee, and Juice enterprises. Nonetheless, the growth is still on track with our strategic goal of \$200 million per year. We project that for FY 2007-08, PIA will align all enterprises and have an overall higher revenue level of \$203 million.

The steady revenue level in manufacturing enterprises, the significant increase in services enterprises, and the slight decrease in agricultural enterprises for FY 2007-08 is a combination of factors. Namely, PIA anticipates increased sales to address potential and

existing customer needs in the following areas: Furniture (seating products, case goods - residential and office); Metal Products (institutional furniture and lockers to support CDCR's Prison/Jail Expansion program); Fabric (Nomex clothing for active fire season and a new Centralized Procurement Program with Cal Trans); Food Products (instant coffee, peanut butter and jelly packages, chicken franks, and Salisbury steaks); Shoes (leather shoe sales to the State of Washington); Cleaning Products (kitchen products); and Mattress (new hospital line). Another significant cause for increases in proposed revenues for FY 2007-08 is PIA's overall strategy of essential price increases. In many cases PIA is increasing prices that have not been updated for several years or were not covering cost of goods sold. Finally, one of PIA's main focuses will be to improve production efficiencies so that it can expand capacity while controlling costs, later more fully discussed.

As shown below, Manufacturing enterprises continue to represent more than half of PIA's total revenue.



The top four revenue producing enterprises in each of the Manufacturing, Services, and Agricultural industries for FY 2007-08 are:

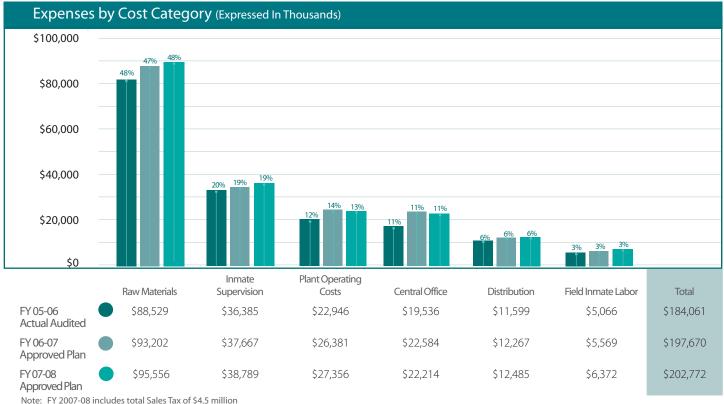
Top Revenue Producing Enterprises (Expressed In Thousands)					
Manufacturing		Services		Agricultural	
Fabric	\$27,305	Optical	\$18,830	Dairy	\$14,500
Furniture	\$24,863	Laundry	\$13,355	Poultry	\$ 5,700
License Plates	\$14,900	Meat Cutting	\$10,733	Egg Production	\$ 4,100
General Fabrication	\$14,130	Food & Beverage Packaging	\$10,600	Crops	\$ 2,000
Page 3					Annual Plan

### **Expenses**

For FY 2007-08, PIA estimates that its Cost of Goods Sold (COGS) will be approximately \$168 million, or 82 percent of revenue. The increase in COGS is due primarily to higher raw material costs and increases in production. As noted in the Expenses by Cost Category table below, PIA projects that it will procure \$2.4 million more raw materials in FY 2007-08 than it planned for FY 2006-07. In addition, PIA projects that during FY 2007-08 it will have \$2.9 million more in costs in Inmate Supervision and Labor, and Plant Operations than in FY 2006-07. This increase is mainly due to costof-living raises, reactivation of Folsom Furniture factory, variable expenses related to the addition of new products in Food & Beverage Packaging, and increased inmate assignments. Overall, PIA will thus increase its COGS by approximately \$5 million more in FY 2007-08 from FY 2006-07.

Selling and Administration (S&A) actual expenses for FY 2006-07 overall are expected to be less than the original planned amount despite PIA's significant investments in upgrading ERPLx and ISO 9001, and salary adjustments. While the S&A expenses for industrial services and distribution were higher than planned due to the addition of essential personnel and equipment resources, such increases were more than offset by cost efficiencies in Marketing, Executive, and Administrative Services. FY 2007-08 AP S&A expenses will remain consistent with FY 2006-07 AP and will continue to address our Strategic Business Plan Goals: Ensure Inmate Success – expanding the Carpentry Pre-Apprenticeship programs and continuing the Marine Technology Training program (non-revenue generating programs); Promote and Support PIA - implementing Phase II of PIA's Enterprise Resource Planning System, and ensuring a quality workforce with cost-of-living raises and new positions that further support PIA's infrastructure; and Exceed Customer Expectations – enhancing PIA's Product Engineering Unit for development of new and improvement of existing products.

In FY 2007-08, PIA will concentrate on achieving self sufficiency by decreasing COGS through the monitoring of procurement and inventory levels, implementing ISO 9001 Quality Management Standards in several manufacturing enterprises, and improving overall production efficiencies.



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## Inmate Labor by Location

Average monthly inmate assignments are projected to increase by a total of 1,108, from FY 2005-06 to FY 2007-08, due in part to several new opportunities – implementation of the Carpentry Pre-Apprenticeship and Marine Technology programs, and the

Modular Construction enterprise. Additionally, inmate assignments have grown because of increased production in the following enterprises: Furniture, Metal Products, Laundry, Fabric Products, Food and Beverage Packaging, and Optical.

California Institution for Men 205 221 24 California Men's Colony 658 680 72 Richard J.Donovan 395 513 41 Correctional Training Facility 488 624 62 Avenal State Prison 569 596 58 Deuel Vocational Institution 208 257 25 Folsom State Prison 506 504 56 San Quentin State Prison 274 304 30 California Institution 276 254 27 California Correctional Institution 276 254 27 California State Prison 337 333 38 California State Prison Corcoran 424 479 58 Chuckawalla Valley State Prison 82 82 82 99 Sierra Conservation Center 118 102 15 Central California Women's Facility 378 393 43 California State Prison Lancaster 70 84 109 Wasco State Prison 43 109 88 On Time Delivery, North 24 28 28 On Time Delivery, North 24 28 28 On Time Delivery, Central	Inmate Labor	Average Monthly Filled Assignments		
California Men's Colony         658         680         72           Richard J. Donovan         395         513         41           Correctional Training Facility         488         624         62           Avenal State Prison         569         596         58           Deuel Vocational Institution         208         257         25           Folsom State Prison         506         504         56           San Quentin State Prison         274         304         30           California Institution for Women         124         136         14           California Correctional Institution         276         254         27           California State Prison Solano         490         475         61           Mule Creek State Prison Corcoran         424         479         58           Chuckawalla Valley State Prison         53         54         5           Pelican Bay State Prison         82         82         9           Sierra Conservation Center         118         102         15           Central California State Prison Lancaster         70         84         10           Wasco State Prison         43         109         8           On Time Delivery, N		FY 05-06 Actuals	FY 06-07 Approved Plan	FY 07-08 Approved Plan
Richard J. Donovan       395       513       41         Correctional Training Facility       488       624       62         Avenal State Prison       569       596       58         Deuel Vocational Institution       208       257       25         Folsom State Prison       506       504       56         San Quentin State Prison       274       304       30         California Institution for Women       124       136       14         California Correctional Institution       276       254       27         California State Prison Solano       490       475       61         Mule Creek State Prison Solano       490       475       61         Mule Creek State Prison Corcoran       424       479       58         California State Prison Corcoran       424       479       58         Chuckawalla Valley State Prison       53       54       5         Pelican Bay State Prison       82       82       9         Sierra Conservation Center       118       102       15         Central California Women's Facility       378       393       43         California State Prison Lancaster       70       84       10 <t< td=""><td>California Institution for Men</td><td>205</td><td>221</td><td>244</td></t<>	California Institution for Men	205	221	244
Correctional Training Facility         488         624         62           Avenal State Prison         569         596         58           Deuel Vocational Institution         208         257         25           Folsom State Prison         506         504         56           San Quentin State Prison         274         304         30           California Institution for Women         124         136         14           California Correctional Institution         276         254         27           California State Prison Solano         490         475         61           Mule Creek State Prison         337         333         38           California State Prison Corcoran         424         479         58           Chuckawalla Valley State Prison         53         54         5           Pelican Bay State Prison         82         82         9           Sierra Conservation Center         118         102         15           Central California Women's Facility         378         393         43           California State Prison Lancaster         70         84         10           Wasco State Prison         43         109         88           On Time D	California Men's Colony	658	680	724
Avenal State Prison       569       596       58         Deuel Vocational Institution       208       257       25         Folsom State Prison       506       504       56         San Quentin State Prison       274       304       30         California Institution for Women       124       136       14         California Correctional Institution       276       254       27         California State Prison Solano       490       475       61         Mule Creek State Prison Solano       490       475       61         Mule Creek State Prison Corcoran       424       479       58         California State Prison Corcoran       424       479       58         Chuckawalla Valley State Prison       53       54       5         Pelican Bay State Prison       82       82       9         Sierra Conservation Center       118       102       15         Central California Women's Facility       378       393       43         California State Prison Lancaster       70       84       10         Wasco State Prison       43       109       88         On Time Delivery, North       24       28       22         On Time	Richard J. Donovan	395	513	418
Deuel Vocational Institution         208         257         25           Folsom State Prison         506         504         56           San Quentin State Prison         274         304         30           California Institution for Women         124         136         14           California Correctional Institution         276         254         27           California State Prison Solano         490         475         61           Mule Creek State Prison         337         333         38           California State Prison Corcoran         424         479         58           Chuckawalla Valley State Prison         53         54         5           Pelican Bay State Prison         82         82         9           Sierra Conservation Center         118         102         15           Central California Women's Facility         378         393         43           California State Prison Lancaster         70         84         10           Wasco State Prison         43         109         8           On Time Delivery, North         24         28         2           On Time Delivery, Central         0         13         1	Correctional Training Facility	488	624	622
Folsom State Prison         506         504         56           San Quentin State Prison         274         304         30           California Institution for Women         124         136         14           California Correctional Institution         276         254         27           California State Prison Solano         490         475         61           Mule Creek State Prison         337         333         38           California State Prison Corcoran         424         479         58           Chuckawalla Valley State Prison         53         54         5           Pelican Bay State Prison         82         82         9           Sierra Conservation Center         118         102         15           Central California Women's Facility         378         393         43           California State Prison Lancaster         70         84         10           Wasco State Prison         43         109         8           On Time Delivery, North         24         28         2           On Time Delivery, Central         0         13         1	Avenal State Prison	569	596	584
San Quentin State Prison       274       304       30         California Institution for Women       124       136       14         California Correctional Institution       276       254       27         California State Prison Solano       490       475       61         Mule Creek State Prison       337       333       38         California State Prison Corcoran       424       479       58         Chuckawalla Valley State Prison       53       54       55         Pelican Bay State Prison       82       82       9         Sierra Conservation Center       118       102       15         Central California Women's Facility       378       393       43         California State Prison Lancaster       70       84       10         Wasco State Prison       43       109       8         On Time Delivery, North       24       28       2         On Time Delivery, Central       0       13       1	Deuel Vocational Institution	208	257	257
California Institution for Women       124       136       14         California Correctional Institution       276       254       27         California State Prison Solano       490       475       61         Mule Creek State Prison       337       333       38         California State Prison Corcoran       424       479       58         Chuckawalla Valley State Prison       53       54       5         Pelican Bay State Prison       82       82       9         Sierra Conservation Center       118       102       15         Central California Women's Facility       378       393       43         California State Prison Lancaster       70       84       10         Wasco State Prison       43       109       88         On Time Delivery, North       24       28       22         On Time Delivery, Central       0       13       1	Folsom State Prison	506	504	569
California Correctional Institution       276       254       27         California State Prison Solano       490       475       61         Mule Creek State Prison       337       333       38         California State Prison Corcoran       424       479       58         Chuckawalla Valley State Prison       53       54       55         Pelican Bay State Prison       82       82       9         Sierra Conservation Center       118       102       15         Central California Women's Facility       378       393       43         California State Prison Lancaster       70       84       10         Wasco State Prison       43       109       88         On Time Delivery, North       24       28       22         On Time Delivery, Central       0       13       1	San Quentin State Prison	274	304	302
California State Prison Solano       490       475       61         Mule Creek State Prison       337       333       38         California State Prison Corcoran       424       479       58         Chuckawalla Valley State Prison       53       54       5         Pelican Bay State Prison       82       82       9         Sierra Conservation Center       118       102       15         Central California Women's Facility       378       393       43         California State Prison Lancaster       70       84       10         Wasco State Prison       43       109       8         On Time Delivery, North       24       28       2         On Time Delivery, Central       0       13       1	California Institution for Women	124	136	145
Mule Creek State Prison       337       333       38         California State Prison Corcoran       424       479       58         Chuckawalla Valley State Prison       53       54       55         Pelican Bay State Prison       82       82       9         Sierra Conservation Center       118       102       15         Central California Women's Facility       378       393       43         California State Prison Lancaster       70       84       10         Wasco State Prison       43       109       8         On Time Delivery, North       24       28       2         On Time Delivery, Central       0       13       1	California Correctional Institution	276	254	277
California State Prison Corcoran 424 479 58 Chuckawalla Valley State Prison 53 54 Pelican Bay State Prison 82 Sierra Conservation Center 118 102 15 Central California Women's Facility 378 393 43 California State Prison Lancaster 70 84 109 Wasco State Prison 43 0n Time Delivery, North 24 28 20 On Time Delivery, Central	California State Prison Solano	490	475	613
Chuckawalla Valley State Prison       53       54       55         Pelican Bay State Prison       82       82       9         Sierra Conservation Center       118       102       15         Central California Women's Facility       378       393       43         California State Prison Lancaster       70       84       10         Wasco State Prison       43       109       8         On Time Delivery, North       24       28       2         On Time Delivery, Central       0       13       1	Mule Creek State Prison	337	333	382
Pelican Bay State Prison       82       82       9         Sierra Conservation Center       118       102       15         Central California Women's Facility       378       393       43         California State Prison Lancaster       70       84       10         Wasco State Prison       43       109       8         On Time Delivery, North       24       28       2         On Time Delivery, Central       0       13       1	California State Prison Corcoran	424	479	580
Sierra Conservation Center       118       102       15         Central California Women's Facility       378       393       43         California State Prison Lancaster       70       84       10         Wasco State Prison       43       109       8         On Time Delivery, North       24       28       2         On Time Delivery, Central       0       13       1	Chuckawalla Valley State Prison	53	54	54
Central California Women's Facility       378       393       43         California State Prison Lancaster       70       84       10         Wasco State Prison       43       109       8         On Time Delivery, North       24       28       2         On Time Delivery, Central       0       13       1	Pelican Bay State Prison	82	82	96
California State Prison Lancaster         70         84         10           Wasco State Prison         43         109         8           On Time Delivery, North         24         28         2           On Time Delivery, Central         0         13         1	Sierra Conservation Center	118	102	150
Wasco State Prison         43         109         8           On Time Delivery, North         24         28         2           On Time Delivery, Central         0         13         1	Central California Women's Facility	378	393	433
On Time Delivery, North         24         28         2           On Time Delivery, Central         0         13         1	California State Prison Lancaster	70	84	101
On Time Delivery, Central 0 13	Wasco State Prison	43	109	83
	On Time Delivery, North	24	28	28
On Time Delivery South	On Time Delivery, Central	0	13	12
of three belivery, sodd to	On Time Delivery, South	0	5	7
Central Office         28         26         17	Central Office	28	26	177
Total 5,750 6,272 6,85	Total	5,750	6,272	6,858

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# Inmate Labor by Enterprise

Enterprise	Average Monthly Filled Assignments			
	FY 05-06 Actuals	FY 06-07 Approved Plan	FY 07-08 Approved Plan	
Dairy/Farm	269	283	271	
Crops	59	56	72	
Poultry	105	111	111	
Egg Production	90	96	96	
Meat Cutting	62	58	70	
Bakery	72	76	76	
Coffee Roasting	20	19	25	
Food & Beverage Packaging	79	88	175	
Furniture	645	819	845	
Metal Products	327	417	449	
Metal Signs	30	23	30	
License Plates	165	75	131	
General Fabrication (Century Systems)	224	160	160	
Bindery	119	88	140	
Knitting Mill	81	69	82	
Fabric Products	1,326	1,389	1,527	
Shoe Factory	236	277	242	
Mattress Factory	92	75	98	
Printing	121	103	124	
Dental Lab	38	31	39	
Cleaning Products	24	33	50	
Laundry	820	888	866	
Optical	353	403	412	
Modular Construction	7	80	80	
Statewide Administrative Support	327	483	463	
OTD California	31	46	47	
Central Office	28	26	42	
Carpentry Pre-Apprenticeship Program	0	0	85	
Marine Technology Training Program	0	0	50	
Total	5,750	6,272	6,858	

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## Change in Cash

As of April 30, 2007, PIA's FY 2006-07 cash reserves were \$23 million, but projected to increase to \$24 million by June 30, 2007. PIA has designated approximately \$9.5 million for capital projects leaving PIA with cash reserves of \$14.5 million for operating expenses; an amount less than the two-month level in "reserves" that was suggested by an independent accounting firm.

Lower reserves for FY 2007-08, are a result of lower starting cash due to additional unanticipated capital equipment, building, and improvement expenditures in FY 2006-07. Starting cash balances differ from prior year-end balances due to timing differences when proposed and actuals are reported.

Cash - Beginning of the Year (Expressed in Thousands)				
	FY 05-06 Actual Audited	FY 06-07 Approved Plan	FY 07-08 Approved Plan	
Cash	\$39,744	\$34,949	\$23,952	
Operating Income (Loss)				
Revenues	179,375	199,405	203,295	
Operating Expenses	184,061	197,670	202,772	
Total Operating Income (Loss)	(\$4,686)	\$1,735	\$523	
Adjustments  Capital Expenditures	(\$7,132)	(\$12,423)	(\$9,536)	
Inventory <increase>/Decrease</increase>	1,170	(1,396)	(1,332)	
Non-Operating Income/ <expenses></expenses>	1,167	1,039	973	
Increases/Decreases in Non-Cash & Outstanding Transactions	9,622	6,616	12,493	
Total Adjustments	\$4,827	(\$6,164)	\$2,598	
Net Change in Cash	\$141	(\$4,429)	\$3,121	
Cash - End of Year	\$39,885	\$30,520	\$27,073	

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### Notes to Budget & Financial Plan

#### 1. Legal Considerations

One of the major considerations for PIA continues to be the legal challenges from competing vendors regarding PIA's authority to sell specific products and services. While PIA continues to prevail, such issues take time to address and respond to the Legislature whose constituencies include such vendors. Penal Code 2807 (PC 2807), Statutes of 1982, requires agencies to purchase available products from the Prison Industry Authority (PIA).

#### 2. Fiscal Policies

- a. Consistent with its accounting policies, PIA prepares its Annual Plan on an accrual basis estimating revenues when orders are expected to be shipped and expenses at the time liabilities are incurred.
- b. The preparation of the Annual Plan requires PIA management to make estimates and assumptions about revenues and expenses. Actual results could differ from those estimates.
- PIA segregates certain cash which is designated as to use, such as for capital expenditures and development funds.

#### 3. Strategic Business Planning

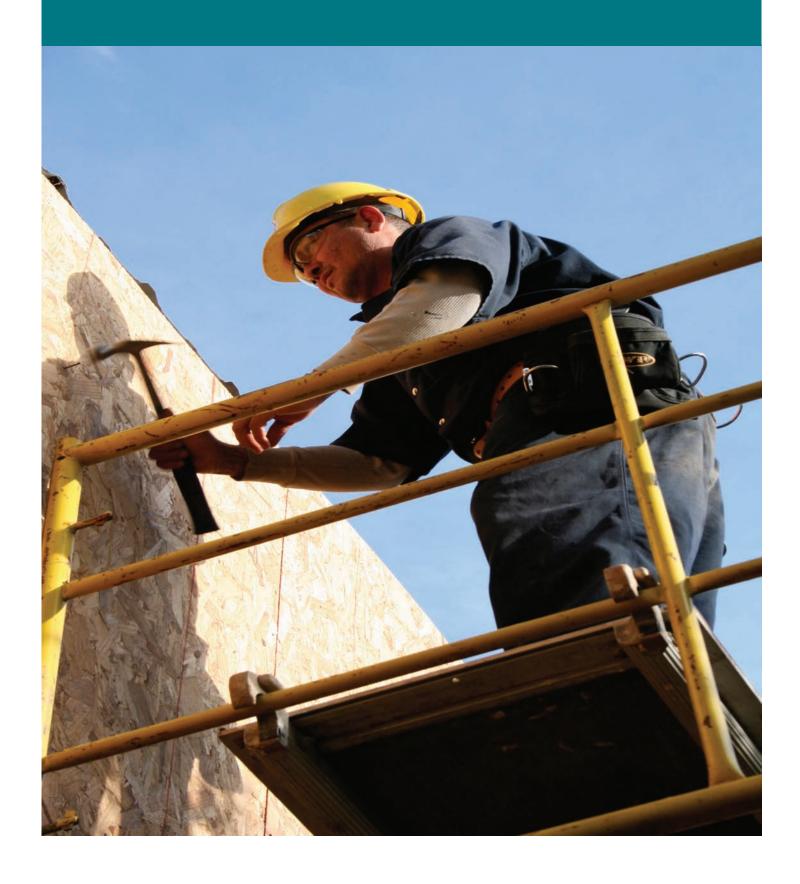
PIA continues to be self-sufficient. It does not receive appropriated state funds, and depends on the sale of goods and services to governmental agencies to be self-sufficient, and to ensure the success of its inmate workforce. As part of its self-sufficiency, PIA must operate cost-effectively. The following policies are part of its strategies to be cost-efficient.

a. Effective July 1, 2005, PIA ceased utilizing the DGS (Procurement Division) for its purchasing needs. Rather, PIA has developed new policies

and procedures to conduct its own procurements consistent with the Penal Code. We believe that this change will continue to allow PIA to take advantage of reduced prices available in the open market for relatively short periods of time (e.g., spot purchases on raw materials).

- b. Market expansion. PIA continues to pursue opportunities to expand existing product lines and/ or create new enterprises as a means to maintain its self-sufficiency, and grow its ability to offer additional training/skills for inmates. An important component of expansion is PIA's strategic partnership with the CDCR, and alliances with its primary State customers as well as with local municipalities. Market expansion includes additional food products such as packaged cookies, peanut butter, jelly, condiments, and fruit juices; cleaning products and modular buildings for CDCR; and furniture for university clients.
- c. Quality Control. PIA's Century Line Modular furniture is certified under ISO 9001 Quality Management Standards. During FY 2007-08 it will continue to achieve certification of all furniture lines, modular building enterprise, and On-Time Delivery.
- d. Capital Construction. In order to meet its market expansion demands and operational needs, PIA is continuously evaluating its capital needs. Although all, or a major portion of costs for such capital projects are anticipated to be incurred during the Fiscal Year 2007-08, such costs have not been detailed in the Annual Plan because all such costs would be submitted separately and included as part of a financing package. Potential projects include Camp 12, factory and warehouse expansions, and showroom and conferencing facilities. PIA will use its Pre-Apprenticeship Carpentry Program for such capital projects, to the extent possible.

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# Business Lines by Site

Avenal	Avenal State Prison	•Egg Production •Furniture •General Fabrication (Century Systems) •Laundry •Poultry
Tehachapi	California Correctional Institution	•Fabric Products
Chowchilla	Central California Women's Facility & Valley State Prison For Women	•Crops •Dental Lab •Fabric Products •Joint Venture-Electronic Circuitry •Laundry •Optical Lab
Chino	California Institution For Men	•Food & Beverage Packaging •Laundry •Career Technical Education - Marine Technology Training Program
Corona	California Institution For Women	•Fabric Products •Career Technical Education - Carpentry Pre-Apprenticeship Program
San Luis Obispo	California Men's Colony	•Fabric Products •Knitting Mill •Laundry •Printing •Shoes
Corcoran	California State Prison Corcoran & Substance Abuse Treatment Facility	Dairy/Farm •Food & Beverage Packaging •Furniture •Laundry •Metal
Soledad	Correctional Training Facility	Dairy/Farm
Blythe	Chuckawalla Valley State Prison	•Laundry
Susanville	California Correctional Center	•Joint Venture – Alfalfa Growing and Packing
Tracy	Deuel Vocational Institution	•Dairy/Farm •Furniture
Folsom	Folsom State Prison & California State Prison Sacramento	•Laundry •License Plates •Metal Products •Metal Signs •Modular Construction •Printing •Furniture •Career Technical Education - Carpentry Pre-Apprenticeship Program
Lancaster	California State Prison Los Angeles	•Cleaning Products •Laundry
lone	Mule Creek State Prison	•Coffee Roasting •Fabric Products •Laundry •Meat Cutting
Crescent City	Pelican Bay State Prison	•Laundry •Optical Lab
San Diego	Richard J. Donovan Correctional Facility	•Bakery •Laundry •Optical Lab •Shoes
Jamestown	Sierra Conservation Center	•Fabric Products
Vacaville	California State Prison Solano	•Bindery •Laundry •Metal Products •Optical Lab
San Quentin	California State Prison San Quentin	•Furniture •Joint Venture-Scientific Packaging •Mattress
Wasco	Wasco State Prison	•Crops •Laundry
California	On-time Delivery North, Central & South California	•PIA Distribution and Prompt Delivery Warehouses

In addition to the activities shown, each site has support functions, as applicable, i.e., Institution Office and Administration, Maintenance and Repair, and Warehouse.

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